

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 EB-04 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 L-01 H-01

PA-01 PRS-01 USIA-06 CIAE-00 COME-00 FRB-01 INR-05

NSAE-00 XMB-02 OPIC-03 LAB-01 SIL-01 IO-04 NEA-06

SWF-01 ABF-01 /090 W

----- 125784

R 251808Z OCT 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5913

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 16880

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING OCTOBER
23)

REF.: BONN 6738

1. RIPPLES FROM HERSTATT CLOSURE EVIDENT IN SHIFTING
DEPOSIT PATTERNS IN GERMAN BANKS: ACCORDING TO RECENT
STATISTICS OF THE BUNDESBANK FOR THE MONTHS OF JULY
AND AUGUST NON-BANK DEPOSITS IN PRIVATE BANKS ARE DOWN
SHARPLY. FROM THE END OF JUNE, I.E. SHORTLY AFTER THE
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HERSTATT COLLAPSE, TO THE END OF AUGUST THESE DEPOSITS

FELL BY DM 2.1 BILLION TO DM 9.5 BILLION. THIS RE-
PRESENTS A NEAR 18 PERCENT DROP WITHIN THE TWO MONTH
ERIOD. THE REASON FOR THE DROP CANNOT BE
SOLELY ATTRIBUTED TO HERSTATT SINCE DEPOSITS IN THE
BIG THREE (DEUTSCHE, DRESNER, COMMERZ) BANKS AND IN
REGIONAL AND OTHER CREDIT INSTITUTIONS (E.G. MORTGAGE
BANKS) FELL ALSO. THE PERCENT DROPS AMONG THESE,
HOWEVER, WERE CONSIDERABLY LOWER THAN THAT IN PRIVATE
BANKS. NON-BANK DEPOSITS IN THE BIG THREE WERE DOWN
1.5 PERCENT, REGIONAL AND OTHER CREDIT INSTITUTIONS
DOWN 5.2 PERCENT. CONTRIBUTING TO THIS DEVELOPMENT
WAS THE APPARENT TENDENCY OF LARGE CREDIT CUSTOMERS TO
TURN TOWARD THEIR BANK DEPOSITS RATHER THAN TOWARD
CREDIT IN THEIR FINANCING REQUIREMENTS. IN CONTRAST
TO THE DRAWDOWN OF DEPOSITS IN THE PRIVATE BANKS THE
NETWORK OF CITY SAVINGS BANKS (SPARKASSEN) AND AGRI-
CULTURAL BANKS (VOLKSBANKEN AND RAIFFEISENBANKEN)
ENJOYED A RISE OF DM 4.1 BILLION AND DM 1.4 BILLION
RESPECTIVELY, IN THE TWO MONTH PERIOD.

2. BUNDESBANK EASES CREDIT (REFTEL): THE DECISION BY
THE BUNDESBANK TO REDUCE THE DISCOUNT AND THE LOMBARD
RATES BY 0.5 PERCENT AND INCREASE THE REDISCOUNT QUOTAS
WERE TAKEN, ACCORDING TO BANK PRESIDENT KLASSEN, BE-
CAUSE OF "CHANGED CIRCUMSTANCES" IN THE GERMAN ECONOMY.
HE SAID THE MEASURES WERE TAKEN SPECIFICALLY TO FORE-
STALL A POSSIBLE RISE IN INTEREST RATES ON THE GERMAN
CAPITAL MARKETS. KLASSEN FURTHER SAID THAT WITH THE
ELEVATED REDISCOUNT QUOTA HE EXPECTS REDUCED USE OF
LOMBARD CREDITS.

3. FOREIGN EXCHANGE MARKET: DESPITE A BRIEF RALLY ON
MONDAY AND EARLY TUESDAY THE DOLLAR CONTINUED ON A
GENERAL DOWNWARD COURSE DURING THE REPORTING WEEK.
THE FINANCIAL PRESS ATTRIBUTED THE DEVELOPMENT TO UN-
FAVORABLE NEWS ABOUT THE U.S. ECONOMIC SITUATION AND
TO THE DECLINE IN US PRIME INTEREST RATES. ALSO CITED
WAS AN ANTICIPATED FRIDAY ANNOUNCEMENT OF ADVERSE US
TRADE FIGURES. DURING THE REPORTING WEEK SPOT
AND FORWARD DOLLARS DEVELOPED AS FOLLOWS:
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	FORWARD DOLLARS		
	(DISCOUNTS IN PCT.P.A.)		
SPOT DOLLARS	ONE-MONTH	THREE-MONTH	
OCT 18	DM 2.5750	1.2	1.2
21	2.5867	0.9	1.1
22	2.5866	0.5	1.0
23	2.5745	0.5	0.6

24 2.5775 1.2 1.0

WITHIN THE JOINT FLOAT THE DEUTSCHEMARK SHOWED
EVIDENCE OF FURTHER WEAKENING. ALL CURRENCIES RE-
MAINED ABOVE THEIR DM CENTRAL RATES BUT NON SURPASSED
THEIR UPPER DM INTERVENTION RATES.

4. MONEY MARKET: THE GERMAN MONEY MARKET REMAINED
TIGHT. DURING THE REPORTING WEEK FRANKFURT INTER-BANK
MONEY RATES DEVELOPED AS FOLLOWS:

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CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

OCT 18	9.0-9.1	9.2-9.5	9.7-9.9
21	9.0-9.2	9.2-9.5	9.7-9.9
22	9.0-9.3	9.3-9.5	9.7-9.9
23	9.0-9.3	9.3-9.5	9.7-9.9
24	9.0-9.2	9.3-9.5	9.7-9.9

5. MONETARY RESERVES: IN THE SECOND WEEK OF OCTOBER (OCTOBER 7-14) BUNDESBANK MONETARY RESERVES ROSE BY UNCLASSIFIED

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DM 0.9 BILLION TO DM 87.2 BILLION. THE PRINCIPAL REASON FOR THE RISE WAS THE EXCHANGE MARKET INTERVENTION BY THE BANK IN SUPPORT OF THE DOLLARS. HOLDINGS OF LIQUID FOREIGN EXCHANGE ROSE BY DM 914 MILLION AND GROSS LIABILITIES BY DM 13 MILLION.

6. BANK LIQUIDITY: IN THE SECOND WEEK OF OCTOBER BANK LIQUIDITY INCREASED BY DM 2.6 BILLION. THE MAJOR FACTORS INCREASING LIQUIDITY INCLUDE A REDUCTION OF DM 8 BILLION IN MINIMUM RESERVES HELD AT THE BUNDESBANK AND THE ABOVE MENTIONED INCREASE IN BUNDESBANK MONETARY RESERVES. LIQUIDITY WAS REDUCED BY THE GROWTH OF CURRENCY IN CIRCULATION (DM 1.4 BILLION). THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE LOMBARD BORROWINGS AT THE BUNDESBANK BY DM 2.6 BILLION.

7. BOND MARKET: DURING THE REPORTING WEEK BOND PRICES WERE RELATIVELY STEADY. THE FAZ AVERAGE YIELDS TO MATURITY OF OUTSTANDING DOMESTIC BONDS DEVELOPED AS FOLLOWS:

8 PERCENT 7 PERCENT 6 PERCENT

OCT 18	11.30	11.14	10.63
21	11.32	11.15	10.56
22	11.30	11.15	10.63
23	11.31	11.14	10.64
24	11.29	11.14	10.63

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL DATA, FINANCIAL PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 OCT 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BONN16880
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740305-0929
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741017/aaaaaofm.tel
Line Count: 217
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: : BONN 6738
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 04 MAR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 MAR 2002 by chappeld>; APPROVED <06-Aug-2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL DEVELOPMENTS (WEEK ENDING OCTOBER 23)
TAGS: EFIN, GE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005